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September 8, 2008

**MEMORANDUM**

**TO:** Legislative Education Study Committee

**FR:** Frances R. Maestas *FRM*

**RE: STAFF REPORT: NEW MEXICO PUBLIC SCHOOL INSURANCE**  
**AUTHORITY: PROJECTED FY 10 INSURANCE REQUEST**

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**Introduction**

Each year, the Legislature appropriates dollars to the State Equalization Guarantee (SEG) Distribution (Public School Funding Formula) to provide for projected increases in the employer's group health and risk insurance contribution rates of the state's charter schools and member school districts participating in the New Mexico Public School Insurance Authority (NMPSIA).

The dollars appropriated are based on an appropriation request by NMPSIA based on projected contribution rates considered to be adequate to provide for anticipated insurance claims, administrative costs, and reserves in the next fiscal year. These increases are often offset by NMPSIA board action that allows the agencies to use insurance reserve fund balances to reduce the projected increases for both the employer and the employee.

**NMPSIA FY 09 Budget Update**

For FY 09, the Legislature appropriated approximately \$17.3 million to provide for the employer's share of increased insurance premiums for NMPSIA's participating public school members. The appropriation required NMPSIA to use \$2.0 million from the agency's health benefits fund balance to reduce any increases. The benefits portion of the NMPSIA request included a:

- 9.9 percent increase in medical insurance premiums, effective October 1, 2008;
- 4.7 percent increase in dental insurance premiums; and
- no increases for vision, life, and disability insurance.

Regarding the risk program, the FY 09 request reflected an overall 10.2 percent increase in property, liability, and worker's compensation increase premiums on July 1, 2008.

### **FY 10 Appropriation Request**

- For FY 10, NMPSIA requests an appropriation of approximately \$5.4 million to provide for the employer's share of increased insurance premiums for its members. The benefits portion of the FY 10 budget request considers a:
  - 10 percent increase in medical insurance premiums for NMPSIA that would go into effect for public school employees October 1, 2009;
  - 6.0 percent increase in dental insurance premiums; and
  - no increases for vision, life, and disability insurance.
- For FY 10, the benefits request does not consider the use of fund balance to offset the increases as NMPSIA has often done in the past. According to NMPSIA, the June 30, 2008 unaudited fund balance of approximately \$16.4 million is projected to be "zero" by June 30, 2009. Historically, NMPSIA staff report, the agency's medical claims trend have been less than the national average; however, an analysis of these claims reveals a substantial increase in recent months in both the utilization and cost of medical services, including four catastrophic claims of over \$550,000 each.
- Regarding the risk program, the FY 10 request reflects a "zero" percent increase in property, liability, and worker's compensation increase premiums. For the first time in many years, NMPSIA will a positive fund balance of approximately \$4.5 million as of June 30, 2008.

### **About NMPSIA**

In 1986, NMPSIA was created in the *Public School Insurance Authority Act* to serve as a purchasing agency for public school districts, postsecondary educational entities, and charter schools.

Currently, NMPSIA provides health and risk insurance coverage for 88 of New Mexico's public school districts and its 67 charter schools. (Current law exempts any school district with a student enrollment in excess of 60,000 students from NMPSIA coverage, which applies only to the Albuquerque Public Schools).

Health coverage by NMPSIA includes basic life and accidental death and dismemberment, voluntary life, long-term disability, two medical plans, a dental plan with basic and comprehensive coverage, and a vision plan. Risk coverage includes property insurance, liability insurance, worker's compensation, student catastrophic insurance, student accident insurance, boiler and machinery insurance, and underground storage tanks coverage.

NMPSIA's medical plans are "self-insured" which means that NMPSIA is responsible for the design of the plan and the setting of contributions. NMPSIA sets the contribution rates to

provide the necessary revenue to pay for the claims its participating members incur. When the claims exceed the contributions, the contribution rates have to be increased to cover any deficit.

The act requires the state to pay for a portion of the group insurance premiums for employees (this portion translates into the employer's share of the insurance costs that the Legislature appropriates every year) based on a percentage of the employee's salary as follows:

- 75 percent of the premium for employees earning less than \$15,000 per year;
- 70 percent for employees earning \$15,000 but less than \$20,000 per year;
- 65 percent for employees earning \$20,000 but less than \$25,000 per year; and
- 60 percent for employees earning \$25,000 or more per year.

In 2004, the Legislature amended the act to allow participating entities, if revenue is available, to contribute up to 80 percent of the cost of insurance for all employees.

### **Presenters**

Mr. Sammy Quintana, Executive Director; and Ms. Christy Edwards, Deputy Executive Director, NMPSIA, will discuss the projected increases in NMPSIA's FY 10 appropriation request.